

Thrift Institutions Advisory Council

Definition of Capital and Re-evaluation of Risk Weights

On December 17, 2010, the Thrift Institutions Advisory Council met with the Board of Governors to discuss proposed amendments to the risk-based capital guidelines: market risk (Docket No. R-1401). The council submitted written views, which are provided below.

"Basel III also tightens the definition of common equity, as well as Tier 1 capital, and incorporates some substantial revisions in risk weights (e.g., for the trading book). How will these changes influence banking activities?"

[T]he tighter definition of common equity and Tier 1 capital can be expected to make it more difficult for banks to engage in their traditional intermediation activities, to the detriment of the broader economy. The increase in trading book capital requirements (estimated to be three -to - four-fold) will make these activities less profitable and drive down overall profits and return on equity at banks with trading operations, especially when combined with new restrictions on proprietary trading. While we are supportive of efforts to better align capital charges with the riskiness of positions in both the trading and banking books, the dramatic and draconian increases in capital charges that have been imposed are an over-reaction that could impair bank growth and profitability, to the detriment of the broader economy."